Lead Notes Re: Possible Ramifications of Free-Trade on Canadian Tourism.

The earliest discussions of free trade dates back to the 1840's when Britain repealed the Corn Laws. The free-trade debate has resurfaced periodically over the years (1866, 1879, 1911, 1970's). Now in 1985 free-trade has captured our attention again. Despite the fact that tourism is the second largest industry in most provinces, it is not subject to discussion in the free-trade debate. A quick and brief search of local library resources indicates that no definitive text on "the tourism industry and free-trade" exists. In fact, it appears that tourism as an industry is not considered in sectoral analyses of free-trade. Apparently, tourism is not perceived, generally, as an industry. (It may be, however, a rather difficult industry to analyze as it is composed of a number of subsectors, ie., accommodations, dining services, transportation, events and attractions and outdoor resources and recreational facilities).

Excerpts from Royal Commission on the Economic Union and Development Prospects for Canada. Chapter 6. Freer Trade with the United States (pp299-385).

The Commission is in favour of a "across-the-board" approach rather than the sectoral approach to freer trade with the United States. Three options exist.

(1) Common Market (p305)
- free movement of goods and services among member countries
- common tariffs and harmonization of protected-trade policies applied to the outside world (to non-members)
- free movement of labour and capital among member countries.

(2) Customs Union (p306)
- removal of all barriers to their trade in goods and services
- impose a single set of commercial policies on imports from third countries.

(3) Free-trade (pp306-307)
- each country may impose its own restrictions on movements of capital and labour between partner countries
- each nation has the right, also, to levy its own taxes and to stipulate its onw regulations for goods entering from third countries
- guarantees, for the most part, that goods and services originating in a member country may enter other member countries free of tariff and non-tariff restrictions
- fits within General Agreement on Tariffs and Trade (GATT).

MacDonald Royal Commission is in favour of third option - Canada-U.S., bilateral, free-trade (pp304-307). See pp374-375 for description of Commission's free-trade agreement. Briefly, the Commission is in favour of a free-trade agreement which covers 80% of all trade in goods and most services between Canada-U.S. Presently, approximately 75% of Canada's trade is with the U.S. Free-trade and freer trade are used interchangeably in the report. Totally free-trade does not exist, not even between the provinces (p301). Managed trade and fair trade are more accurate terms.

An international model of such an agreement is the 1983 Trade Agreement between New Zealand and Australia. New Zealand and Australian tariffs on each other's exports will fall to nil by the mid-1990's. Some products (up to 20%) are exempted. A series of Articles curtail the right of each country to apply non-tariff barriers, such as countervailing duties or safeguard measures against the other country's exports. Ministers meet to review the arrangement, and generally, to administer the accord (p307). Also see "Canada told to not fear free-trade" The Globe and Mail September 5, 1985 (pB9).

The U.S. Administration has recently stressed the need for liberalizing trade in services, principally transportation, communications, banking, insurance and allied financial activities. This also will be one of the top-priority negotiating objectives in any future GATT round and will probably figure prominently in any Canada-U.S. trade talks. Both Canada and the United States maintain entry controls and other barriers which exclude foreign controlled enterprises or limit their allowed share of the domestic market in many service sectors. Trade in services is outside jurisdiction of GATT, therefore Canada and U.S. do not have to remove all barriers affecting it. Overall, however, it is likely that the United States has more to gain from the reciprocal reduction of barriers to trade in services than has Canada (p308). Report does not outline effects of these reduced barriers on tourism. No mention is made of the hospitality services (except for transportation).

According to GATT provisions, by 1987 more than 95% of Canadian imports from U.S. will be traded either duty free or at tariff levels of less than 5% ("Trade-Off Prospects Rattle Some Industries" Financial Times August 19, 1985 p16) Non-tariffs (government procurement practices, product standards, customs rules and procedures) are a different story.

MacDonald Report states "A Canada-U.S. free-trade agreement should, then, contain detailed codes of national conduct controlling government procurement, product standards and customs procedures" (p316). Report does not state what these standards and procedures would be except that effective implementation will require application, on a case-by-case basis, of general standards prohibiting unnecessary or unjustified protection against imports. It suggests that the design of an

effective institution for implementation will determine treaty's success. How will problems such as those encountered with the Auto would Pact be resolved (ie., U.S. buys Canadian cars duty free in Canada with U.S. dollars = substantial savings. Note "Jobs threat sparks free-trade debate" The Gazette August 24, 1985 pA2 states the Auto Pact is a limited free-trade deal in that car makers, not individuals, are permitted to import duty free). At present majority of our exports tend to flow through duty-free holes in the U.S. tariff wall that are open to Canadian exports, ie., resources and autos. Report does not spell out specific trade guidelines; this will be dependent on goods/services brought in/taken out of country.

Free trade is just another method of selling products, not a development policy; in fact Canada does not have an industrial strategy. Free trade may result in the elimination of non-tariff barriers such as subsidies, regional development aid, small business assistance, et cetera (see Free trade holds great potential" The Financial Post August 3, 1985 p9, "Free trade: end to sovereignty?" The Gazette August 28, 1985 pA-5, "Free Trade Call Commands Attention From Business" Daily Gleaner September 6, 1985 p2) which would have a definite effect on tourism development.

Report concludes "that in the long run, Canada would benefit substantially from bilateral free-trade with the U.S...(p327). The gain in Canada's GNP is expected to be in the range of 3 to 10% (p330). This (10%) is approximately the amount of entire federal budget deficit (see R.A. Young "Last, Worst Deal" Options July/August Vol. 6 No. 6 pp4-9).

In the section Effect of Freer Trade on Canadian Industry (pp336-349) no mention is made of tourism/hospitality industry in their reports. Is tourism not considered an industry? How does it fit within a freer trade agreement?

Reports' conclusions from sectoral analysis suggest free-trade would stimulate entrepreneurial-initiative and boost birth rate of new businesses in areas where Canada is competitive (p347). Multinationals are unlikely to leave Canada as capital investment is hard to move (p348). While no general withdrawal of investmet is expected, freer trade would probably increase capital and labour mobility between Canada and United States (p348). Tourism industry, then, may have more investment monies and larger labour force to draw upon. The reverse may also be true. Our labour and capital may seek opportunities south of the border reducing the availability of these resources to Canada's tourism industry. (Also see above statement on elimination of development aid.)

Free-trade will have the effect of making Canada's industries more competitive (sink or swim aproach). Increased competition usually results in cutted prices to consumers. Thus it is conceivable Canada would be able to offer tourists lower prices enabling them to stay in Canada longer. Presently many Americans think a Canadian vacation is too costly (ie., food, alcohol, hotel rates and gas are cited as being too expensive) and go elsewhere. (Canadians, however, may flock to the U.S. to purchase their lower priced consumer goods.)

This increased competition, also, may force Canadians firms to weaken laws governing such areas as environmental protection (see R. A. Young "Last, Worst Deal" Options July/August vol. 6 no. 6, pp4-9) which would ultimately have undesirable effects on tourism industry, ie., sport fishery, receational boating, natural outdoor and wildlife appreciation.

Initially, employment losses unavoidably would occur but it will occur anyway if Canada continues on same economic course. Jobs would come from investment rather than from protecting existing jobs through trade restrictions. Canadians also would derive from freer trade the higher real wages made possible by a more productive economy and, by encouraging Canadian consumers to buy more goods, will create more jobs (p348). Consumers spending less money on foreign imports have more money to spend on everything else in their budget ("Free-trade holds great potential" The Financial Post August 3, 1985, p9). More jobs and higher wages will enable consumers to travel more, lengthen vacation stay and generally spend more dollars on tourism/hospitality goods and services, ie., dining out and hotel accommodations.

The Commissioners of the MacDonald Report do not think that a Canada-U.S. free-trade agreement would lead Canadians to abandon the defense of indigenous political and social norms. It is believed the reverse will occur. Our national assurance would be strengthened because Canada can prosper in a highly competitive market, without aid of artifical protection (p354). Free-trade would give Canada a new sense of clout (p356). It would help us to rid ourselves of our colonialmentality, and boost our self image, give us a new sense of pride and confidence (p353). Our close relationship with the U. S. could make us more conscious of qualities which make Canada and Canadians unique. This fact plus the added pride and confidence are necessary for an aggressive marketing campaign for Canada as a travel destination.

Another possible ramification of free-trade is that Americans will realize Canada is one of their most important trading partners and ally. Free-trade would enhance Canada's profile in the U.S. We will be able to project an image of Canada as a place, with interesting differences and cultural values, which Americans should visit. Polls conducted by Market Opinion Research, suggest Americans presently have

"a nice warm feeling about us but they don't really know a hell of a lot about Canada..."(Polls says Americans like Canada - but still don't know much about us "The Gazette, August 2, 1985, "Ottawa ponders program to win U. S. hearts" The Globe and Mail, August 17, 1985.) However the reverse may be true also. Canadians may travel and vacation in the United States more often and in greater numbers.